

REPORT OF THE AUDITOR-GENERAL TO THE KWAZULU-NATAL PROVINCIAL LEGISLATURE AND THE COUNCIL ON JOZINI MUNICIPALITY

REPORT ON THE FINANCIAL STATEMENTS

Introduction

1. I have audited the financial statements of the Jozini Municipality set out on pages ... to ..., which comprise the statement of financial position as at 30 June 2012, the statement of financial performance, statement of changes in net assets and the cash flow statement for the year then ended, and the notes, comprising a summary of significant accounting policies and other explanatory information.

Accounting Officer's responsibility for the financial statements

2. The accounting officer is responsible for the preparation and fair presentation of these financial statements in accordance with the South African Standards of Generally Recognised Accounting Practice (SA Standards of GRAP) and the requirements of the Local Government: Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA) and the Division of Revenue Act of South Africa, 2011 (Act No. 6 of 2011) (DoRA), and for such internal control as the accounting officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor-General's responsibility

3. My responsibility is to express an opinion on the financial statements based on my audit. I conducted my audit in accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA), the *General Notice* issued in terms thereof and International Standards on Auditing. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.
4. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the municipality's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the municipality's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.
5. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified audit opinion.

Basis for qualified opinion

Property Plant and Equipment

6. The Property plant Equipment comparative of R45,761 million as disclosed in note 6 to the financial statements, did not agree to the asset register totalling 85,513 million resulting in a difference of R39,762 million. Consequently, we were unable to verify the completeness of assets disclosed in the financial statements.

The Property plant Equipment additions of R52,089 million as disclosed in note 6 to the financial statements, did not agree to the asset register totalling 56,148million resulting in a difference of R4,058 million. Consequently, we were unable to verify the completeness of assets disclosed in the financial statements.

Opinion

7. In my opinion, except for the effects of the matters described in the Basis for qualified opinion paragraphs, the financial statements present fairly, in all material respects, the financial position of Jozini Municipality as at 30 June 2012 and its financial performance and cash flows for the year then ended, in accordance with SA Standards of GRAP and the requirements of the MFMA and DORA.

Emphasis of matters

8. I draw attention to the matters below. My opinion is not modified in respect of these matters:

Restatement of corresponding figures

9. As disclosed in note 25 to the financial statements, the corresponding figures for 30 June 2011 have been restated as a result of an error discovered during 2012 in the financial statements of the Municipality at, and for the year ended, 30 June 2011.

Significant uncertainties

10. With reference to note 24 to the financial statements, the municipality is being sued for an unlawful arrest and assault. Council is contesting the claim based on legal advice. A court date has not been set. The ultimate outcome of the matter cannot presently be determined and no provision for any liability that may result has been made in the financial statements.

Unauthorised expenditure

11. As disclosed in note 19 to the financial statements, the municipality has incurred unauthorised expenditure totalling R1,285 million as a result of overpayment for internal audit services.

Irregular expenditure

12. As disclosed in note 20 to the financial statements, the municipality has incurred irregular expenditure totalling R46,541 million as a result of non compliance with supply chain management regulations.

Measurability (measurable)

21. The National Treasury Framework for managing programme performance information (FMPPI) requires that performance targets be measurable. The required performance could not be measured for a total of 34% of the targets relevant to KPA 2: Basic service delivery and infrastructure development and KPA 3: Local economic development. This was due to the fact that management was not aware of the requirements of the FMPPI.

Measurability (specific)

22. The National Treasury Framework for managing programme performance information (FMPPI) requires that performance targets be specific in clearly identifying the nature and required level of performance. A total of 34% of the targets relevant to KPA 2: Basic service delivery and infrastructure development and KPA 3: Local economic development were not specific in clearly identifying the nature and the required level of performance. This was due to the fact that management was not aware of the requirements of the FMPPI.

Measurability (time bound)

23. The National Treasury Framework for managing programme performance information (FMPPI) requires that the time period or deadline for delivery be specified. A total of 28% of the targets relevant to KPA 2: Basic service delivery and infrastructure development and KPA 3: Local economic development were not time bound in specifying a time period or deadline for delivery. This was due to the fact that management was not aware of the requirements of the FMPPI.

Reliability of information

24. The National Treasury Framework for managing programme performance information (FMPPI) requires that documentation addressing the systems and processes for identifying, collecting, collating, verifying and storing information be properly maintained. The institutions could not provide sufficient appropriate evidence to support any of the selected objectives.

Additional matter

25. I draw attention to the following matter below. This matter does not have an impact on the predetermined objectives audit findings reported above.

Achievement of planned targets

26. Of the total number of planned targets, only 35 were achieved during the year under review. This represents 70% of total planned targets that were not achieved during the year under review.

Additional matter

13. I draw attention to the matter below. My opinion is not modified in respect of this matter.

Unaudited supplementary schedules

14. The supplementary information set out on pages xx to xx does not form part of the financial statements and is presented as additional information. I have not audited these schedules and accordingly I do not express an opinion thereon.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

15. In accordance with the PAA and the *General Notice* issued in terms thereof, I report the following findings relevant to performance against predetermined objectives, compliance with laws and regulations and internal control, but not for the purpose of expressing an opinion.

Predetermined objectives

16. I performed procedures to obtain evidence about the usefulness and reliability of the information in the Jozini annual performance report as set out on pages ... to ... of the annual report.
17. The reported performance against predetermined objectives was evaluated against the overall criteria of usefulness and reliability. The usefulness of information in the annual performance report relates to whether it is presented in accordance with the National Treasury annual reporting principles and whether the reported performance is consistent with the planned objectives. The usefulness of information further relates to whether indicators and targets are measurable (i.e. well defined, verifiable, specific, measurable and time bound) and relevant as required by the *National Treasury Framework for managing programme performance information*.

The reliability of the information in respect of the selected objectives is assessed to determine whether it adequately reflects the facts (i.e. whether it is valid, accurate and complete).

18. The material findings are as follows:

Usefulness of information

Presentation

19. Improvement measures in the annual performance report for a total of 49% of the planned targets not achieved were not disclosed as required by section 46 of the Municipal Systems Act. This was due to inadequate internal policies and procedures over the processes pertaining to the reporting of performance information.

Consistency

20. The Municipal Systems Act, section 41(c) requires that the integrated development plan should form the basis for the annual report, therefore requiring the consistency of objectives, indicators and targets between planning and reporting documents. A total of 57% of the reported indicators are not consistent with the targets as per the approved integrated development plan. This was due to lack of monitoring of the consistency of reporting documents by management.

Compliance with laws and regulations

27. I performed procedures to obtain evidence that the municipality has complied with applicable laws and regulations regarding financial matters, financial management and other related matters. My findings on material non-compliance with specific matters in key applicable laws and regulations as set out in the *General Notice* issued in terms of the PAA are as follows:

Expenditure management

28. As required by section 62(1)(d) of the MFMA, The accounting officer did not take reasonable steps to prevent irregular expenditure.

Annual Performance report

29. Contrary to the requirements of section 41 (c) of the Municipal Systems Act (MSA), the integrated development plan did not form the basis for the annual report, as there was no consistency of objectives, indicators and targets between planning and reporting documents.
30. Contrary to the requirement of section 26 (c) of MSA, the municipality's integrated development plan did not inform the municipality's annual budget based on the objectives and the performance targets.

Annual Financial Statements

31. The financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122 of the MFMA .Material misstatements identified by the auditors were not adequately corrected, which resulted in the financial statements receiving a qualified opinion.

Internal control

32. I considered internal control relevant to my audit of the financial statements, performance report and compliance with laws and regulations. The matters reported below under the fundamentals of internal control are limited to the significant deficiencies that resulted in the basis for qualified opinion, the findings on the performance report and the findings on compliance with laws and regulations included in this report.

Leadership

33. Management have not exercised oversight responsibility over financial and performance reporting, compliance with laws and regulations and internal control.

Financial and performance management

34. Management did not prepare regular, accurate and complete financial and performance reports that are supported and evidenced by reliable information. Management did not monitor compliance with laws and regulations.

OTHER REPORTS

Investigations

35. A forensic investigation was conducted by an independent consulting firm on request of the municipality on supply chain processes. The investigation was completed and the report submitted to the municipality.

Auditor-General
Pietermaritzburg

30 November 2012



AUDITOR-GENERAL
SOUTH AFRICA

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